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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2018/2019

TMA2241 - INTRODUCTION TO MACROECONOMICS

(All sections / Groups)

13 MARCH 2019
2.30 pm- 4.30 pm
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 2 pages with 5 questions only .
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given .
3. Please print all your answers in the Answer Booklet provided .

QUESTION 1

- a) Table 1 shows nominal GDP and the associated GDP deflator index for five consecutive years of a country. All GDP are in billions of ringgits (RM). You are expected to calculate the real GDP for each year. (10 marks)

Table 1: GDP statistics

Year	Nominal GDP	GDP Deflator	Real GDP
1	248	119	_____
2	286	168	_____
3	298	155	_____
4	356	159	_____
5	440	154	_____

- b) Explain the impact of an expanding underground economy on the GDP of a country. (10 marks)

(Total 20 marks)**QUESTION 2**

- a) Explain how poor public education and health in low-income countries lead to poor economic growth rate. (8 marks)
- b) Table 2 shows the figures for a hypothesized economy that has the opportunity to be either closed or opened.

Table 2: Real GDP and Aggregate expenditures

Real GDP	Aggregate expenditures (billions)	Exports (billions)	Imports (billions)	Net exports (billions)	Aggregate expenditures (billions)
RM200	240	20	30	RM_____	RM_____
250	280	20	30	_____	_____
300	320	20	30	_____	_____
350	360	20	30	_____	_____
400	400	20	30	_____	_____

- i) Fill the missing information in Table 2. (4 marks)
- ii) What is the equilibrium GDP if the economy is closed? (4 marks)
- iii) Determine the equilibrium GDP if the economy is opened. (4 marks)

(Total 20 marks)
Continued

QUESTION 3

- a) Suppose you decide to withdraw RM 5,000 from your checking account and use the money to buy a bank certificate of deposit (CD). Briefly explain how this will affect M1 and M2. (6 marks)
- b) What is the relationship between inflation, money supply and real GDP? If the money supply grows at a faster rate than real GDP, will there be inflation or deflation in the economy. (6 marks)
- c) What are the tools of monetary policy? Explain any **TOW** major tools of monetary control by the Bank Negara Malaysia. (8 marks)

(Total 20 marks)

QUESTION 4

- a) What is crowding out effect? Diagrammatically show how an increase in the federal government spending would affect the interest rate. (7 marks)
- b) Diagrammatically show how the central bank's expansionary monetary policy can meet the objective of high employment and a contractionary monetary policy can meet the objective of low inflation. (13 marks)

(Total 20 marks)

QUESTION 5

- a) Explain the short run tradeoff between inflation and unemployment. (10 marks)
- b) Describe the role of long run Phillips Curve in the inflation and unemployment. (10 marks)

(Total 20 marks)

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